

Analysis of using capital asset pricing model for assessing companies return

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Abstract

© 2014, Mediterranean Center of Social and Educational Research. All rights reserved. The article reveals the possibilities of using the bottom-up beta method in the Capital Asset Pricing Model (CAPM) as an alternative to regression analysis because of its limited using in the Russian realities. For this reason, the article presents the comparative analysis of methods for estimating the beta parameter. Having analysed the benefits and shortages of the approaches, in further calculations the authors focused on bottom-up beta approach for analogue companies, which takes into consideration fundamental parameters of company. To prove consistency of estimation of return of equity using the bottom-up beta method in the Capital Asset Pricing Model instead of "raw" beta, analysis of return of equity has been carried out in two ways. In confirmation of the advanced assumption, return of equity estimated by bottom-up beta method was more precise than using regression analysis in comparison with the real return of company's equity. Despite consistency of obtained estimation, it should be noted that this method requires further and deeper research and corrections due to a number of critical remarks made in the course of comparative analysis. In conclusion the authors propose recommendations for solving contradictory points identified during the analysis.

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Keywords

Bottom-up Beta Method, Capital Asset Pricing Model, Forecasting Stock Returns, Risk and Uncertainty